Oil "shortage": a numbers game

On the basis of analysis of available data and examination even of the official statements of the Schlesinger Department of Energy, we can state bluntly that there is no world oil shortage resulting from the loss of Iranian oil production. The Carter Administration is attempting to impose drastic oil price rises in the form of taxation, oil price decontrol and related measures which will severely affect the domestic economy in the months ahead. All of this is being done not on the basis of real net reduction in world oil supply, as the battle cry from Schlesinger, likening the Iranian disruption to an "energy Pearl Harbor," and the deliberations around the just-concluded "energy" Camp David lead the population to believe.

Some basic and startling facts are in order: first, despite the fact that Iranian oil export has been disrupted until this month, overall OPEC oil production for the period of the most severe cutoff in Iranian oil, January 1979, is *up* from the comparable period the previous year. In addition, because of extraordinary stockpiling before the Dec. 26 OPEC meeting, world oil stocks available for the period of the Iranian loss were actually higher than the same period in 1978, a year which itself saw unusually high oil stocks because of speculative stockpiling in anticipation of an OPEC price rise. The U.S. is being pushed toward a war economy on the basis of a supply crisis which simply does not exist, despite press scare stories of spot gasoline shortages and the like.

The facts behind the oil situation

Contrary to impression, world oil production in the non-communist world in January was up by a total of 2.5 million barrels per day above the same period in 1978. This included a substantial increase in Saudi Arabia's output from 7.6 million barrels per day to 9.5 and an overall OPEC total increase of more than 3 percent.

Total non-OPEC, non-communist oil production for January was up more than 10 percent, 1.6 million barrels per day higher than January, 1978. The 1979 figures include substantial increases in North Sea and Mexican production for the period. Thus, despite the loss of approximately 5 million barrels a day from Iran for the period, total world production was *up* more than 2.5 million barrels per day above a comparable period when Iran was producing more than 5.2 million barrels. An estimate done by the Library of Congress for the office of Congressman Albert Gore, Jr., calculates that total world net shortfall in production for this period is no more than 80,000 barrels a day — a far cry from the still manageable 2 million barrel per day figure being cited by Schlesinger. This figure is so small as to be statistically insignificant.

What reserve did the world have coming into the recent Iran disruption for the first quarter? The Department of Energy officially estimated that worldwide stocks of oil coming into the first quarter of 1979 were 4.317 billion barrels. World stocks, that is oil produced, and either in transit or in storage, were 4.276 billion barrels for the same period last year. That is to say that world stocks coming into the Iranian supply disruption were at record highs even from the abnormal highs of the previous year, when stockpiling in anticipation of an OPEC price rise produced a relative "glut." Thus, world oil production has held up during the period of total disruption of Iranian exports, in a period when world stocks were larger than normal to begin with.

U.S. situation

According to official published figures from the U.S. Central Intelligence Agency, the U.S. domestically available petroleum supply at the beginning of January was 1.32 billion barrels. Comparable figures for the previous two years indicate that this year's U.S. supply was the highest of the last three. In 1978 it was 1.31 billion barrels, and 1.11 billion in January, 1977. In short, the U.S. supply was itself unusually high coming into the period of disruption.

Even taking the estimates put out by Schlesinger directly, domestic demand for petroleum for the month of February, the worst of the Iran shortfall period as it affected U.S. supply, was 21 million barrels per day, up only 1.3 percent from the level for 1978, an unusually miniscule increase in demand. This is reflected in the fact that, according to the *Federal Register* of Feb. 23, domestic inventories were drawn down by 140 million barrels for the two months, compared with a drawdown last year of 106 million barrels, a difference of only 34 million barrels. Allowing for the higher stocks this year, this amounts to a net drawdown of slightly more than 20 million barrels, approximately 300,000 barrels per day, even by government figures.

The figures on which Schlesinger's Department is basing major government policy initiatives is furthermore, in the words of one government General Accounting Office statistician, "very soft data," based on inferences from numbers made available from major oil companies, which give the government figures which are admittedly arbitrary. Every top government source interviewed admitted this arbitrary character of the current statistics, referring to them as a "numbers game." On top of this, total imports into the U.S. for February were up 776,000 barrels per day, an increase of

January oil production figures show no shortage

In January, although Iranian production reached its nadir, net oil output of the non-communist nations — including both OPEC countries and non-OPEC countries — rose over January 1978. Figures compiled by Platt's Oilgram News show that most producers increased their output in January, more than compensating for the Iranian shortfall. Since January 1978 is regarded as a low production month, we also looked at oil production figures for the OPEC countries for January 1977, a more normal month, and for the entire year 1977, a more normal production year. These figures, too, show that January 1979 production by the OPEC countries as a whole, despite the Iranian cutoff, was comparable to the output in 1977.

	Jan 1979[1]	Jan 1978[1]	% chng[1]	Jan 1977[2]	1977
OPEC producers (millions of barrels per day)					
Saudi Arabia*	9.5	7.6	+25	8.4	9.0
Iran	.4	5.3	−92	5.0	5.7
Iraq*	3.1	2.1	+48	1.9	2.3
Kuwait	2.4	1.5	+53	1.3	1.8
United Arab Emirates	1.8	1.7	+ 6	1.9	2.0
Algeria*	1.2	1.2	—	1.1	1.1
Libya*	2.1	1.8	+15	2.0	2.1
Nigeria	2.4	1.6	+50	2.2	2.1
Indonesia*	1.6	1.7	− 6	1.6	1.7
Venezuela	2.3	1.7	+29	2.4	2.2
Other OPEC**	1.6	1.2	+33	1.2	1.1
OPEC Total***	28.5	27.6	+ 3	29.0	31.1
Non-OPEC Producers					
United States	8.7	8.3	+ 4		
Canada	1.5	1.2	+17		
Mexico	1.4	1.1	+26	NA	
United Kingdom	1.5	.9	+65		
Norway	.36	.39	8		
Other Non-OPEC*	4.1	3.9	+ 6		
Non-OPEC Total***	17.5	15.9	+10		
Total, non-communist nations***	45.9	43.5	+6		

*Includes estimates
**Includes estimates and all Neutral zone production
***Totals may not add due to rounding
[1]Source: Platt's Oilgram News, March 19, 1979
[2]Source: Petroleum Intelligence Weekly

almost 10 percent above the same period last year. Hardly the kind of situation to be expected if we have the drastic shortage that we are being led to believe with supply cutbacks of fuel oil and gasoline.

How does the government arrive at its estimates? A GAO official in charge of providing information to Senator Henry Jackson's Energy Committee admitted that "we take an arbitrary figure to calculate petroleum demand—we chose 3 percent. These numbers are all based on statistical extrapolation from one or two companies. What can we do? We have to come up with numbers, so we picked these. There is no data available from the companies that gives an exact picture."

At this juncture, with Iranian oil production resuming, currently at a level of approximately 2.5 million barrels per day, the only basis on which Schlesinger can justify the draconian measures he is attempting to impose on the U.S. economy, in the form of drastically higher energy costs and cutbacks in consumption, is the threat of external disruption of supply from Saudi Arabia and further disruption of Iranian production, or outright terrorist sabotage of refinery capacity. Short of this, Schlesinger is falling short of the facts needed to support his contention to the public that the shortage is real at this point. Even articles in the *New York Times* over the past week have led with headlines such as "Oil 'Facts' Don't Quite Match the Rhetoric," while the *Journal of Commerce* says, "Oil Shortage Fears May be Premature."

At this point it is clear that the combined inventories of the multinational oil majors, led by British Petroleum, Royal Dutch Shell and Exxon, are bulging at the seams.

The only immediate question of importance is which companies are storing how much of this stockpiled inventory, whether in tankers off the Norwegian fjords or in storage depots around the world. It is openly acknowledged by oil analysts and others now that this accumulation of company inventory is substantial. Congressman Albert Gore took note of this when he hit the real danger of rising prices caused by this withholding of stocks to keep high price pressure: "To the extent that their (the oil companies—ed.) decisions to build inventories have enhanced the atmosphere of shortage panic ... as a result, I believe ... the impending 'price crisis' has become more serious than the current supply shortfall." He added that "Schlesinger seized upon the current shortfall to build support for policies deliberately designed to produce much higher consumer prices.... Sharply higher prices risk simultaneous recession and double-digit inflation."

—*William Engdahl*